

Message Text

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ACTION NEA-09

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-03 H-02

INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 PC-01 ABF-01 CU-02 AGR-05 OMB-01

TRSE-00 SAJ-01 EB-07 COME-00 CIEP-01 /090 W

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R 061330Z MAY 75

FM AMEMBASSY COLOMBO

TO RUEHCBASECSTATE WASHDC 2691

INFO AMEMBASSY LONDON

AMEMBASSY NEW DELHI

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C O N F I D E N T I A L COLOMBO 1435

EO 11652: GDS

TAGS: PFOR, US, CE

SUBJ: FINANCE MINISTER'S

CHARGES US INTERFERENCE IN

SRI LANKA AFFAIRS

1. SUMMARY: IN MAY DAY RALLY, TROTSKYITE FINANCE MINISTER CHARGED UNITED STATES WITH SUDDENLY WITHDRAWING LARGE SUMS OF PL-480 RUPEES FROM CENTRAL BANK FOR IMPLIED PURPOSE OF SUPPORTING OPPOSITION LEADER J.R. LAYEWARDENE AND WARNED UNITED STATES NOT TO INTERFERE IN INTERNAL AFFAIRS OF SRI LANKA.

ACCUSATION IS COMPLETE DISTORTION OF RECENT WITHDRAWAL OF ONE MILLION RUPEES FROM USG ACCOUNT IN CENTRAL BANK FOR PLACEMENT IN TIME DEPOSIT AT GRINDLAYS FOR HIGHER INTEREST RATE. STORY IS SUBJECT OF HIGH INTEREST AND SPECULATION HERE. AMBASSADOR HAS PROTESTED STRONGLY TO ACTING PRIME MINISTER MAITHRIPALA SENANAYEKE, LEAVING AIDE-MEMOIRE, ASKING PRIME MINISTER BE INFORMED
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IMMEDIATELY, AND REQUESTING PUBLIC GSL STATEMENT

SETTING RECORD STRAIGHT. AMB'S DEMARCHE
BE
REPORTED SEPTEL. END SUMMARY.

2. FOLLOWING IS BACKGROUND TO AMB'S
REPRESENTATIONS TO ACTING PRIME MINISTER MAY 6
REPORTED SEPTEL:

3. UNDER BANNER HEADLINES, MAY 2 PRESS REPORTED
FINANCE MINISTER N.M.NQERERA'S "WARNING" TO UNITED
STATES DURING MAY DAY SPEECH ON GALL FACE GREEN
NOT TO INTERFERE IN SRI LANKA'S INTERNAL AFFAIRS.
HE REFERRED TO SUDDEN WITHDRAWALS FROM CENTRAL
BANK BY US EMBASSY, STATING AVERAGE AMERICAN
WITHDRAWALS HAD (3, 4 500,000 TO RS 800,000
A MONTH FOR EMBASSY EXPENSES, BUT IN APRIL EMBASSY
HAD WITHDRAWN RS 2,000,000 AND HAD SOUGHT PERMISSION
TO WITHDRAW FURTHER RS 1,500,000 WHICH GSL HAD
"NOT ALLOWED". HE WENT ON TO ASK, WHY THIS SUDDEN
URGE TO WITHDRAW SUCH LARGE SUMS? "WAS IT TO ASSIST
SOME FASCIST FORCE?"

4. FINANCE MINISTER CONTINUED: "I HAVE INFORMED
THE PRIME MINISTER ABOUT THIS AND IT IS MY DUTY TO
TELL PEOPLE THAT WE ARE AWARE WHAT THE US DID
THROUGH ITS CIA IN CAMBODIA AND VIET-NAM. BUT
WE WILL NOT ALLOW THE US TO REPEAT SUCH THINGS
IN THIS COUNTRY. ...IF MY JAYEWARDENE IS SO
NAIVE AS TO IMAGINE THAT HE COULD RIDE TO POWER
THROUGH AMERICAN ASSIS-
TANCE."

5. "CEYLON DAILY NEWS" TOOK
STORY STEP FURTHER MAY 6 BY PUBLISHING ON FRONT
PAGE PRESS STATEMENT ISSUED BY SARVODAYA MOVEMENT
LEADER CALLING FOR COMMISSION OF INQUIRY TO PROBE
RUMORS THAT "THE AMERICANS ARE FINANCING CERTAIN
ANTI-SOCIALIST ORGANIZATIONS TO UNDERMINE AND EVEN
TOPPLE GOVERNMENT". (SARVODAYA (SELF-HELP) MOVEMENT
IS PRIVATE ORGANIZATION THAT HAS IN PAST BEEN SUSPECT
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IN EYES OF MINISTER FELIX DIAS BANDARANAIKE FOR
ALLEGED FOREIGN FINANCING.)

6. N.M.'S MAY DAY ACCUSATIONS RENEWED IN MORE
EXPLICIT AND ELABORATE FORM CHARGE THAT ORIGINALLY
APPEARED IN COMMUNIST PARTY/MOSCOW PAPER APRIL 14
BUT WHICH RECEIVED WIDER PUBLICITY ONLY ON APRIL 21
WHEN FINANCE MINISTER, JUST BEFORE DEPARTURE FOR ADB

MEETINGS MANILA, WAS REPORTED ON "CEYLON DAILY MIRROR" FRONT PAGE AS STATING CONSTITUENT PARTNERS OF UNITED FRONT HAD DECIDED WARN GOVT TO KEEP TAB ON MANNER IN WHICH US RUPEES WERE SPENT LOCALLY.

7. DR PERERA'S CHARGES ARE COMPLETE DISTORTION OF EMBASSY'S WITHDRAWING RS 2,000,000 IN APRIL (INSTEAD OF USUAL RS 500,000 TO RS 1,000,000) IN ORDER TO DEPOSIT RS 1,000,000 IN TIME DEPOSIT IN GRINDLAYS BANK TO EARN COMMERCIAL RATE OF INTEREST. (CENTRAL BANK PAYS ONLY 1-1/2 PERCENT.)

8. AT AIRPORT APRIL -
AWAITING ARRIVAL OF SECRETARY
OF TREASURY SIMON, AMB SET FORTH FACTS OF SITUATION TO BERNARD SOYSA, ACTING FINANCE MINISTER. SAME DAY AT LUNCH GIVEN BY MAITHRIPALA SENANAYEKE FOR SECRETARY SIMON, CHANDANA A. COOREY, SECRETARY, FINANCE MINISTRY, RAISED "CEYLON DAILY MIRROR" STORY WITH DCM, NOTING INACCURACIES BUT ALSO STATING THAT HE RECALLED WRITTEN EXCHANGE OF LETTERS IN WHICH US SIDE AGREED TO LEAVE ALL RUPEES NOT REQUIRED FOR OPERATING EXPENSES IN CENTRAL BANK ACCOUNT, SO THE QUESTION OF TRANSFERS TO COMMERCIAL TIME DEPOSITS SHOULD NOT ARISE. WHEN DCM SAID NEITHER EMBASSY NOR TREASURY DEPT (APPARENTLY) WAS AWARE OF SUCH AGREEMENT, COOREY UNDERTOOK TO RESEARCH FILES UPON RETURN FROM ADB MEETINGS MANILA. (HE HAS NOW DONE SO AND POINTS TO EXCHANGE OF LETTERS OF JUNE 1966 BETWEEN GSL DIRECTOR OF ACCOUNTS AND PAYMENTS AND USDO. COOREY WILL SHORTLY SET FORTH GSL POSITION ON MATTER IN FORMAL LETTER TO
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AMBASSADOR.)

9. ON APRIL 23, CENTRAL BANK GOVERNOR HERBERT TENNEKON TELEPHONED CHARGE (AMBASSADOR HAVING GONE TO UNITED STATES) AFZD STATED PRIME MINISTER HAD ASKED HIM ABOUT APRIL 21 "DAILY MIRROR" STORY. HE HAD GIVEN HER FIGURES ON EMBASSY WITHDRAWALS FROM CENTRAL BANK, INDICATING THEY WERE NOT OUT OF LINE, AND SHE WAS "SATISFIED". HE DESCRIBED PRIME MINISTER AS "IRRITATED" AT WHAT SHE SEEMED TO THINK WAS FINANCE MINISTER'S DELIBERATE ATTEMPT TO CAUSE FRICTION AT TIME SECRETARY SIMON WAS VISITING SRI LANKA. (MRS. BANDARANAIKE LEFT COLOMBO NIGHT OF APRIL 22 FOR IRAQ AND COMMONWEALTH PRIME MINISTERS' CONFERENCE JAMAICA AND RETURNS MAY 17.)

10. STORY SUBSIDED FOR MOST PART UNTIL FINANCE MINISTER'S MAY DAY OUTBURST.
11. WITH APPEARANCE MAY 2 PRESS, CHARGE SOUGHT TO PROTEST N.M.'S REPORTED CHARGES TO W.T. JAYASINGHE, SECRETARY, MINISTRY OF DEFENCE AND FOREIGN AFFAIRS, (MDFA) BUT HE TOOK EVASIVE ACTION AND WAS NOT AVAILABLE. ON MAY 5, DCM RAISED ISSUE WITH LAKSHMAN JAYAKODYWW ACTING MINISTER OF DEFENCE AND FOREIGN AFFAIRS, DURING COURSE OF APPOINTMENT ON RESETTLEMENT OF VIETNAMESE REFUGEES (SEPTTEL), AND SAID THAT AMBASSADOR, WHO RETURNED PREVIOUS DAY, WAS SEEKING URGENT MEETING WITH ACTING PRIME MINISTER. JAYAKODY SAID HE PERSONALLY DID NOT LIKE PERERA'S REMARKS AND WNDERED WHAT HE WAS UP TO. HE ASKED THAT USG BE INFORMED THAT SO FAR AS FOREIGN POLICY WAS CONCERNED, ONLY PRIME MINISTER AND MDFA WERE SPOKESMEN FOR GSL AND FINANCE MINISTER'S REMARKS DID NOT REFLECT ATTITUDE OF GSL. HE ALSO REFERRED TO PROBLEMS WITHIN UNITED FRONT COALITION. JAYAKODY INDICATED AGREEMENT THAT AMBASSADOR SHOULD SEE ACTING PRIME MINISTER AND SAID HE WOULD REPORT DCM'S EXPRESSION OF EMBASSY CONCERN TO HIS AUTHORITIERS.
12. AMBASSADOR SAW ACTING PRIME MINISTER MAITHRIPALA SENANAYEKE MAY 6 AND LODGED STRONG PROTEST, REQUESTED PRIME MINISTER BE INFORMED IMMEDIATELY, AND ASKED THAT CONFIDENTIAL

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- GSL ISSUE PUBLIC STATEMENT TO SET RECORD STRAIGHT (SEPTTEL).
13. COMMENT: N.M.'S CHARGES CONCERNING EMBASSY'S WITHDRAWAL OF RUPEE FUNDS AND INTERFERENCE IN INTERNAL AFFAIRS OF SRI LANKA ARE NOW MATTERS OF KEEN CONVERSATIONAL INTEREST IN TOWN. SPECULATION CONCERNING FINANCE MINISTER'S MOTIVATION IS RIFE, WITH MANY (INCLUDING FELLOW LANKA SAMA SAMAJA PARTY - LSSP (TROTSKYITE) MEMBER COLVIN R. DESILVA) EXPRESSING BEWILDERMENT. SOME OVSERVERS BEGFPGE ALLEGATION REPRESENTS EFFORT TO DISCREDIT PRIME MINISTER AND HER CENTRALIST POLICIES IN WAKE DCABINET-LEVEL DEFEAT OF FINANCE MINISTER'S RECENT FISCAL INITIATIVES INCLUDING WEALTH TAX AND TERMINATION OF TOURISM INCENTIVES. OTHERS SEE N.M. APPEASING SOME MILITANT GROUP WITHIN LSSP. IN ANY EVENT, FALL OF VIET-NAM AND MAY DAY EXCITEMENT OFFERED MADE-TO-ORDER ENVIRONMENT FOR HIS ANTI-AMERICAN STANCE. WHATEVER HIS MOTIVES, PERERA HAS STIRRED UP CONSIDERABLE DOUBT ABOUT U.S. ACTIVITIES HERE AND REMEDIAL ACTION IS CLEARLY CALLED FOR.

VAN HOLLEN

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